

REPORT OF  
FINANCIAL EXAMINATION

**NATIONAL GENERAL INSURANCE COMPANY**

As Of  
December 31, 2003



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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February 22, 2005  
Maryland Heights, Missouri

Honorable Kevin M. McCarty, Commissioner  
Office of Insurance Regulation  
Florida Department of Insurance  
Chairman, Financial Condition (E) Committee, NAIC

Honorable Jorge Gomez, Commissioner  
Office of the Commissioner of Insurance  
State of Wisconsin  
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Dear Sirs:

In accordance with your financial examination warrant, a full scope financial examination has been made of the records, affairs and financial condition of

**National General Insurance Company**

also referred to as the "Company." The Company's administrative office is at 13736 Riverport Drive, Suite 700; Maryland Heights, MO 63043, telephone number (314) 493-8000. This examination began on June 14, 2004, and concluded on February 22, 2005.

**SCOPE OF EXAMINATION**

Period Covered

The prior full scope association financial examination of National General Insurance Company was as of December 31, 2000, and was conducted by examiners from the state of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covers the period from January 1, 2001, to December 31, 2003, and was conducted by examiners from the state of

Missouri representing the Midwestern Zone of the NAIC with no other zones participating. Reserves and related actuarial items were reviewed by Jon W. Michelson, FCAS, MAAA, of the firm, Expert Actuarial Services, LLC, pursuant to a contract with the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring after December 31, 2003.

### Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The work papers of the Company's independent auditors Deloitte and Touche, LLP for 2003 were made available to the examiners. Standard examination procedures were modified as deemed appropriate under the circumstances.

### Comments – Previous Examination

The edited comments and recommendations of the previous examination report dated December 31, 2000, are listed below with the subsequent response or action taken by the Company concerning such comments, recommendations and notes.

#### **1. Comment: Conflict of Interest**

It is again recommended that the Company annually obtain Conflict of Interest Disclosure Statements from all directors, officers and key employees. Statements should be obtained from directors, officers and key employees whose primary position is with affiliates.

The statements should be retained on file at the Company and be available for review by the Department of Insurance during the financial examination.

**Company's Response:**

In the first quarter of 2002 we obtained conflict of interest statements from all directors, officers and key employees of the Company and will maintain the statements on file for review by the department.

**Current Findings:**

We obtained conflict of interest statements for all officers and directors with no conflicts noted.

**2. Comment:**

It is again recommended that the Board of Directors have four quarterly meetings per year as required in Article VI, Section 5 of the Company's Bylaws.

**Company Response:**

The Company responded by letter on March 21, 2002, that the Company is now holding quarterly directors meetings.

**Current Findings:**

Board meetings appear to be held regularly.

## **HISTORY**

### General

The Company was incorporated in the state of Missouri on November 2, 1966, and commenced business on September 13, 1967, as a stock property and casualty insurance company under Chapter 379 RSMo (Insurance Other Than Life).

At that time, the Company was wholly owned by NAVCO Corp., a Missouri insurance holding company. On January 4, 1984, NAVCO Corp. and its subsidiaries, which included the Company, were purchased by Crum & Forster, Inc., a New Jersey insurance holding company, which was ultimately owned by Xerox Corporation.

On March 24, 1984, Crum & Forster, Inc. transferred its ownership equally between two of its subsidiary companies, United States Fire Insurance Company and International Insurance Company.

On December 20, 1990, Motors Insurance Corporation acquired 100% of the stock of NAVCO Corp. Effective on December 31, 2002, NAVCO Corp. was merged into National General Insurance Company. This made Motors Insurance Corporation the immediate parent of the Company. Motors Insurance Corporation is a wholly owned subsidiary of GMAC Insurance Holdings, Inc., which is a wholly owned subsidiary of General Motors Acceptance Corporation, which is a wholly owned subsidiary of General Motors Corporation, the ultimate parent.

### Capital Stock

The Company is authorized to issue 240,000 shares of common stock at a par value of \$25 per share and 200,000 shares of preferred stock at a par value of \$50 per share. There were 80,000 common shares and 50,000 preferred shares issued and outstanding as of December 31, 2003, resulting in a common capital stock account of \$2,000,000 and a preferred capital stock account of \$2,500,000.

## Dividends

The Company has declared and paid dividends since its inception totaling \$97,540,163 to its sole shareholder. The last dividend was paid in 1999. No dividends have been declared or paid during the time covered by this examination.

On March 23, 2000, the Company paid \$6,000,000 to its parent, NAVCO Corp., which was recorded as a return of capital and charged to gross paid in and contributed surplus.

## Management

The Board of Directors consists of nine members duly elected at an annual meeting of the stockholder as authorized by the Company's Articles of Incorporation. The directors duly elected and serving as of December 31, 2003, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
John C. Beattie Winston-Salem, NC	Vice President
Bernard J. Buselmeier Wildwood, MO	Vice President, Chief Financial Officer
Daniel J. Evangelista, Jr. Twinsberg, OH	Vice President
Gerald D. Filler Hudson, OH	Vice President and Chief Information Officer
Gary Y. Kusumi Town and Country, MO	Chairman, President and Chief Executive Officer
Daniel C. Pickens Winston-Salem, NC	Vice President and Chief Actuary



<u>Name and Address</u>	<u>Business Affiliation</u>
Sheena E. Poe Clemmons, NC	Vice President and Secretary
John Urankar Wildwood, MO	Vice President, Chief Claims, Policy Services and Sales Officer
Mitchell F. White Atlanta, GA	Vice President and Chief Marketing Officer

The officers elected and serving as of December 31, 2003, were as follows:

<u>Name</u>	<u>Office</u>
Gary Y. Kusumi	President and Chief Executive Officer
John C. Beattie	Vice President
Donald J. Bolar	Treasurer and Chief Accounting Officer
Bernard J. Buselmeier	Executive Vice President, Finance and Chief Financial Officer
Gerald D. Filler	Vice President and Chief Information Officer
George H. Hall, Jr.	Vice President
Daniel C. Pickens	Vice President and Chief Actuary
Sheena E. Poe	Vice President and Secretary
Daniel J. Evangelista, Jr.	Vice President
Verne E. Purvines	Vice President, Legal Counsel and Assistant Secretary
Thomas W. Stuertz	Vice President

<u>Name</u>	<u>Office</u>
John Urankar	Vice President, Chief Claims, Policy Services and Sales Officer
Mitchell F. White	Vice President and Chief Marketing Officer

Under the bylaws, the Board of Directors, by resolution, may provide for standing or special committees. Members elected and serving on the Finance Committee are as follows:

William F. Muir, Chairman	Michael E. Klehm
Eric A. Feldstein	William B. Noll
B. Jack Miller	Sanjiv Khattri (effective 3/1/04)

#### Conflict of Interest

The Company and its affiliates have a policy under which directors, officers and key employees are required annually to execute Conflict of Interest Disclosure Statements. A review of the disclosure statements on file for 2001 through 2003 disclosed no significant conflicts of interest.

#### Corporate Records

A review was made of the articles of incorporation and bylaws of the Company. Neither the articles of incorporation nor the bylaws were amended during the period being examined.

The minutes of the meetings of the stockholder, board of directors and finance committee were also reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions. The board of directors reviewed and approved the examination report as of December 31, 2000 on May 18, 2002.

### Acquisitions, Mergers and Major Corporate Events

As stated above NAVCO Corporation was merged into National General Insurance Company effective on December 31, 2002. GMAC Insurance Company Online, Inc., an affiliate, commenced business on January 18, 2001.

### Surplus Debentures

None.

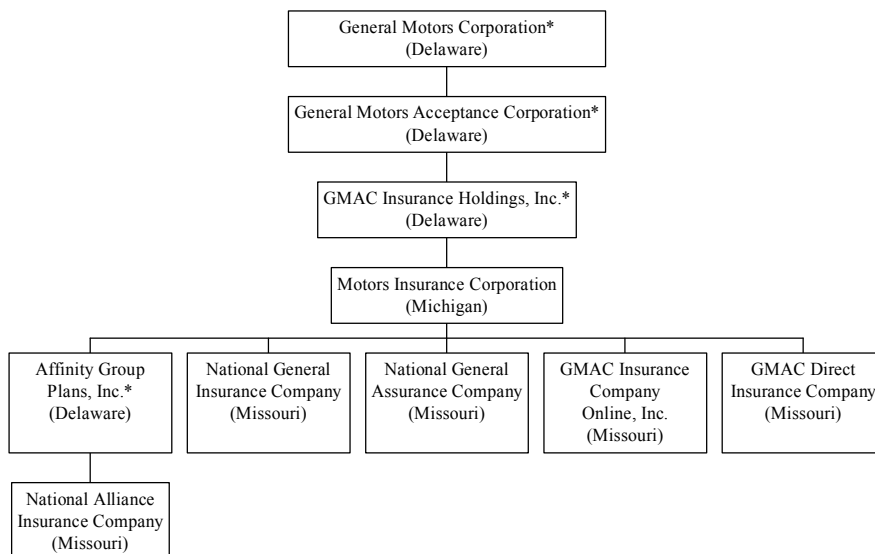
## **AFFILIATED COMPANIES**

### Holding Company, Subsidiaries and Affiliates

The Company is a member of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions). The ultimate controlling person is General Motors Corporation, a publicly traded corporation listed on the New York Stock Exchange.

### Organizational Chart

The following organizational chart depicts the Insurance Holding Company System as of December 31, 2003. The chart includes only the Missouri domiciled insurers, including the Company, and its parent. A complete organizational chart is included in the Company's annual statement. All subsidiaries are wholly owned and non-insurance entities are identified with an asterisk.



### Intercompany Transactions

During the period under examination the Company was party to the following intercompany agreements listed below:

1. **Type:** Federal Income Tax Allocation Agreement
- Parties:** Motors Insurance Corporation and various subsidiaries including National General Insurance Company, National General Assurance Company, GMAC Direct Insurance Company and GMAC Insurance Company Online, Inc.
- Effective:** January 1, 2002
- Terms:** Motors Insurance Corporation shall stand in the place of the IRS for all purposes.
- Rate(s):** The subsidiary will pay to Motors Insurance Corporation the separate subsidiary tax liability as determined by the hypothetical federal income tax return for the subsidiary. No less than fifteen business days prior to the date on which Motors Insurance Corporation is required to make estimated tax payments on behalf of the group, subsidiaries shall submit to Motors Insurance Corporation or its designee a calculation of the separate subsidiary estimated taxes, determined on the basis of the estimated separate subsidiary tax liability. Within ninety days following the filing of the GM Group consolidated federal income tax return, Motors Insurance Corporation shall notify the subsidiary of the amount of the separate subsidiary tax liability and within fifteen days after such notification subsidiary shall pay to Motors Insurance Corporation or Motors Insurance Corporation shall pay to subsidiary the difference between the separate subsidiary tax liability and the estimated tax payments previously made by subsidiary.

**2. Type:** Services and Facilities Agreement

**Parties:** GMAC Insurance Holdings, Inc. and subsidiaries including National General Insurance Company, National General Assurance Company, GMAC Insurance Company Online, Inc. and GMAC Direct Insurance Company.

**Effective:** April 19, 1998, with addendums number 1, January 1, 1999, number 2, September 1, 2000, (to add companies to the agreement) and number 3, June 22, 2002, to add National Alliance Insurance Company and Affinity Group Plans Inc. There were no changes to the agreement.

**Terms:** To the extent available, each party agrees to furnish, upon request of the others, such qualified personnel, supplies, equipment, services and facilities reasonably and necessarily required to conduct such functions as the recipient party is authorized by law to perform. The services include, but are not limited to, the performance of various administrative, marketing, actuarial, financial, tax, investment, data processing, claims and underwriting functions.

If investment services are provided to any insurance company, all investments shall be made in accordance with the investment laws of the state in which the insurance company is domiciled.

The laws of the state of New York shall govern the terms of the agreement to the extent that the party is providing services to a New York domiciled insurance company or by the laws of the state of North Carolina to the extent that any party is providing services to a North Carolina domiciled insurance company.

Each supplying party shall render a quarterly statement. The original agreement stated that there would be monthly statements. Addendum number 1 changed monthly statements to quarterly statements.

Disputes shall be submitted to arbitration.

**Rate(s):** The sole consideration for the personnel, supplies, equipment and facilities shall be the actual cost, unless a schedule of charges and fees negotiated on an arm's length basis is mutually agreed upon. Such charges shall be allocated to the recipient party, on a cost basis, in conformity with customary accounting principles consistently applied and Regulation 30 of the New York Insurance Department.

**3. Type:** Investment Management Agreement

**Parties:** General Motors Investment Management Corporation and Motors Insurance Corporation

**Effective:** January 1, 1993, amended November 21, 1997, to be effective January 1, 1993, with addendums adding the various subsidiaries including National

General Insurance Company, National General Assurance Company, GMAC Direct Insurance Company and GMAC Insurance Company Online, Inc.

**Terms:** General Motors Investment Management Corporation manages the Company's cash and securities in accordance with investment guidelines established by the Company.

**Rate(s):** Motors Insurance Corporation shall reimburse General Motors Investment Management Corporation semi-annually for the costs and expenses incurred by General Motors Investment Management Corporation with the amount of such reimbursement complying with the requirements of Regulation 30 of the New York Insurance Department.

These agreements were all filed with the Missouri Department of Insurance and were not disapproved.

### **FIDELITY BOND AND OTHER INSURANCE**

The Company is insured under a crime policy purchased by General Motors Corporation, the ultimate parent in the holding company system. This policy provides fidelity coverage with a limit of \$300,000,000 and a deductible of \$25,000,000. General Motors Corporation has decided to self-insure the amount of the deductible. All self-insurance payments made will be treated the same as any other overhead item and allocated accordingly. It appears that the Company has adequate fidelity bond coverage.

The Company also has the following types of insurance protection: property, general liability, insurance operations errors and omissions coverage, directors and officers liability and workers' compensation. It appears that General Motors Corporation has adequate coverage for protection of its assets and those of the insurance companies..

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company has no employees. Employees of GMAC Insurance Holdings, Inc. or other affiliates provide services under the Services and Facilities Agreement.

GMAC Insurance Holdings, Inc. provides its employees benefits typical of the industry including medical, dental and vision insurance, group term life insurance, long and short term disability benefits, retirement savings plan (401K), pension plan and paid holidays, vacation and sick leave.

## **STATUTORY DEPOSITS**

### Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2003, as reflected below, were deemed sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 379.098(1) RSMo (Securities Deposits).

<b>TYPE OF SECURITY</b>	<b>PAR VALUE</b>	<b>MARKET VALUE</b>	<b>STATEMENT VALUE</b>
U.S. Treasury Note	<u>\$2,500,000</u>	<u>\$3,189,850</u>	<u>\$2,727,543</u>

### Deposits with Other States

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2003, were as follows:

<b>STATE</b>	<b>TYPE OF SECURITY</b>	<b>PAR VALUE</b>	<b>MARKET VALUE</b>	<b>STATEMENT VALUE</b>
Arkansas	U.S. Treasury Note	\$50,000	\$63,797	\$54,551
Florida	U.S. Treasury Note	75,000	95,696	81,826
Georgia	U.S. Treasury Note	50,000	63,797	54,551
Louisiana	U.S. Treasury Note	20,000	25,519	21,820
New Mexico	U.S. Treasury Note	300,000	382,782	327,305
North Carolina	U.S. Treasury Note	300,000	382,782	327,305
Oregon	U.S. Treasury Note	100,000	127,594	109,102
Virginia	U.S. Treasury Note	50,000	63,797	54,551
	Total	<u>\$945,000</u>	<u>\$1,205,764</u>	<u>\$1,031,011</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### Territory and Plan of Operations

The Company is licensed in Missouri under Chapter 379 RSMo (Insurance other than life) to write property, liability and miscellaneous insurance. The Company is also licensed in all other states and the District of Columbia.

The majority of the Company's business is produced through direct response programs marketed to affinity groups and associations. The business is concentrated in the mature risk, recreational vehicle, and multi-car segment of the market.

Promotional fees payable to affinity groups and associations under the marketing programs were \$15,360,527; \$14,566,763 and \$15,169,154 in 2001, 2002, and 2003 respectively.

### Policy Forms & Underwriting; Advertising & Sales Materials and Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report. The most recent Missouri Market Conduct Examination was as of December 31, 2001.



The Company has a complaint system in place and appears to handle complaints in a timely manner.

## **REINSURANCE**

The Company's premiums on a direct written and ceded basis for the current examination period were as follows:

	<u><b>2003</b></u>	<u><b>2002</b></u>	<u><b>2001</b></u>
Direct Business	\$287,252,021	\$262,577,458	\$276,478,496
Reinsurance Assumed	17,694,340	15,373,608	4,213,341
Reinsurance Ceded	<u>(274,852,693)</u>	<u>(250,920,839)</u>	<u>(254,152,147)</u>
Net Premiums	<u><b>\$30,093,668</b></u>	<u><b>\$27,030,227</b></u>	<u><b>\$26,539,690</b></u>

### Assumed

Over 99% of reinsurance premiums assumed is from Home State County Mutual Insurance Company under a treaty executed on April 1, 2000. The treaty is a fronting arrangement under which Home State County Mutual Insurance Company writes private passenger automobile business for the Company in Texas, which is 100% assumed by the Company.

The Company also assumes premiums from mandatory pools and associations with this amount of premium accounting for less than 1% of assumed premium.

### Ceded

In order to exit the homeowners business, the Company entered into a quota share reinsurance treaty with Homesite Indemnity Company effective December 16, 2000 under which the Company cedes 100% of its net retained liability on homeowners' multi peril policies. Concurrently, the Company also executed an Insurance Program Agreement with Homesite Group Incorporated that provides for a joint marketing program. Under the joint marketing

program, it is anticipated that subsidiaries of Homesite Group Incorporated will eventually write the homeowners business currently insured by the Company.

The Company also has a ceding agreement with American Reinsurance Company for automobile liability excess of loss with various layers whereby the Company retains the first \$1,000,000.

The Company cedes to mandatory pools in Florida, Michigan and New Jersey. These cessions account for less than .5% of premiums.

Ninety percent of the net retained premiums, losses, costs, assessments, expenses and other liabilities are ceded to Motors Insurance Corporation, an affiliate, under a quota share treaty.

We reviewed all of the Company's reinsurance agreements and they all appear to have the required clauses and safeguards.

## **ACCOUNTS AND RECORDS**

The Company's financial statements are audited annually by Deloitte & Touche, LLP. We reviewed the 2003 Deloitte & Touche,LLP audit work papers and financial reports. These work papers and reports were used in the course of this examination as deemed appropriate.

The Information Systems Examination Specialist with the Missouri Department of Insurance completed an electronic data processing controls audit and concluded that systems controls appear reasonable.

Reserves and related actuarial items are reviewed and certified by, Dan Pickens, FCAS, MAAA, Vice President of National General Insurance Company. Consulting actuary, Jon W. Michelson FCAS, MAAA, of Expert Actuarial Services, LLC, was retained by the Missouri Department of Insurance to review the adequacy of losses and other related liabilities.

The Company is in violation of 20 CSR 200-4.010 (Books, Records, Accounts and Vouchers), both paragraph (3) "Location of Files," which states, "All financial books, records and accounts necessary for the annual statement of a Missouri insurer must be kept in a central location" and paragraph (4) "Time Limits," which states, "The insurer shall provide, within five (5) working days, any record requested by any duly appointed financial examiner . . ."

The General Motors holding company system is decentralized. Financial records are kept in various locations, and because of this it was difficult to obtain detailed documentation. Many requests took well over five working days. The Examination Planning Questionnaire, which was sent to the Company in June 2004, was finally received on January 20, 2005.

### **SUBSEQUENT EVENTS**

All intercompany balances were settled on January 13, 2004, which would at that time no longer put the Company in violation of Section 379.082 3.(2)(k) as stated in Note 1 to the financial statements. In addition, we noted that all quarterly settlements are made within 15 days after the close of the calendar quarter.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2003, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements" which follow the financial statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were

determined to be immaterial concerning their effect on the financial statements, and therefore were only noted in the work papers for each individual annual statement item.

## ASSETS

	<b>Ledger Assets</b>	<b>Assets Not Admitted</b>	<b>Net Admitted Assets</b>
Bonds	\$ 61,799,462		\$ 61,799,462
Cash and short term investments	(3,364,365)		(3,364,365)
Investment income due and accrued	725,716		725,716
Uncollected premiums and agents' balances in course of collection	1,127,242	6,469	1,120,773
Deferred premiums, agents' balances and installments booked but deferred	21,535,485		21,535,485
Amounts recoverable from reinsurers	41,453,848		41,453,848
Current federal income tax and interest thereon	296,686		296,686
Net deferred tax asset	1,415,644	497,585	918,059
Guaranty funds receivable or on deposit	35,262		35,262
Electronic data processing equipment	712,516	14,107	698,409
Receivable from parent, subsidiaries and affiliates	4,393,493		4,393,493
Examination change due to excess investment assets	-	9,838,230	(9,838,230)
	<b>Note 1</b>		
<b>Total Assets</b>	<b><u>\$ 130,130,989</u></b>	<b><u>\$10,356,391</u></b>	<b><u>\$ 119,774,598</u></b>

## LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 11,816,309
Loss adjustment expenses	2,084,459
Other expenses	2,074,134
Taxes, licenses and fees due or accrued	402,961
Unearned premiums	7,942,969
Advance premiums	532,738
Ceded reinsurance premiums payable	68,671,612
Amounts withheld or retained by company for account of others	139,465
Remittances and items not allocated	33,354
Net adjustment in assets and liabilities due to foreign exchange rates	
Aggregate write-ins for liabilities- Unearned commission	103,944
Aggregate write-ins for liabilities- Accrued unearned premiums deficiency	347
Aggregate write-ins for liabilities- North Carolina Escrow	<u>686,799</u>
<b>Total Liabilities</b>	<b>\$ 94,489,091</b>
Common capital stock	2,000,000
Preferred capital stock	2,500,000
Gross paid in and contributed surplus	11,059,257
Unassigned funds (surplus)	<b>Note 1</b> <u>9,726,249</u>
<b>Surplus as regards policyholders</b>	<b><u>\$ 25,285,506</u></b>
<b>Total Liabilities and Surplus</b>	<b><u>\$119,774,597</u></b>

## STATEMENT OF INCOME

Premiums earned	\$ 29,522,066
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### DEDUCTIONS

Loss incurred	17,377,364
Loss expense incurred	3,128,007
Other underwriting expenses incurred	7,753,897
Aggregate write-ins for deductions - LAD program - expense	(94,766)
Aggregate write-ins for deductions - Provision for unearned premium deficiency	(218)
North Carolina escrow	<u>335,223</u>

<b>Total underwriting deductions</b>	28,499,507
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Net underwriting gain or loss	1,022,559
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### INVESTMENT INCOME

Net investment income earned	2,526,341
Net realized capital gains/(losses)	<u>17,062</u>

<b>Net investment gain or (loss)</b>	2,543,403
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### OTHER INCOME

Net gain or (loss) from agents' or premium balances charged off	(80,533)
Finance and service charges not included in premiums	270,589
Aggregate write-ins for miscellaneous income	<u>82,631</u>

<b>Total other income</b>	272,687
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Net income before dividends to policyholders and federal & foreign taxes	3,838,649
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Dividends to policyholders	-
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Net income after dividends to policyholders, before federal & foreign taxes	3,838,649
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Federal and foreign income taxes incurred	<u>(232,061)</u>
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<b>Net income</b>	<b><u>\$ 4,070,710</u></b>
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## NOTES TO FINANCIAL STATEMENTS

<b>Note 1</b>	<b>Non-admissible excess non-investment assets</b>	<b>\$9,838,229</b>
	<b>Unassigned funds (surplus)</b>	<b>9,726,249</b>

The Company is not in compliance with 379.082 3.(2)(k). This section addresses the matter of diversification in the Company's Other Than Invested Assets. As of December 31, 2003, the Company was not diversified. To comply with the statute it was necessary to non-admit a total of \$9,838,229 reducing unassigned funds by the same amount. This amount was determined as follows:

Total of other than invested assets	66,784,238
Limitation: 25% of policyholder obligations	<u>24,222,273</u>
Excess over limitation	42,561,965
Excess capital and surplus	<u>32,723,736</u>
Excess non-diversified assets	<u><u><b>9,838,229</b></u></u>



## EXAMINATION CHANGES

### Total Surplus Per Annual Statement:

Common capital stock	\$ 2,000,000
Preferred capital stock	2,500,000
Gross paid in and contributed surplus	11,059,257
Unassigned surplus	<u>19,564,479</u>

**Surplus as Regards Policyholders** **\$35,123,736**

Increase In Surplus	Decrease In Surplus
------------------------	------------------------

### Assets:

Excess non-diversified assets	\$ 9,838,229	Note 1
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### Total

<u>-</u>	<u>-</u>
\$ -	\$ 9,838,229

### Liabilities:

### Total

<u>\$ -</u>	<u>\$ -</u>
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Net Change	\$ -	\$ 9,838,229	<u>(9,838,229)</u>
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### Total Surplus Per Examination Report:

Common capital stock	\$ 2,000,000
Preferred capital stock	\$ 2,500,000
Gross paid in and contributed surplus	11,059,257
Unassigned surplus	<u>9,726,250</u>

**Surplus as Regards Policyholders** **\$25,285,507**

## **GENERAL COMMENTS AND/OR RECOMMENDATIONS**

### **Accounts and Records**

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The Company is in violation of 20 CSR 200-4.010 (Books, Records, Accounts and Vouchers), both paragraph (3) "Location of Files," which states, "All financial books, records and accounts necessary for the annual statement of a Missouri insurer must be kept in a central location" and paragraph (4) "Time Limits," which states, "The insurer shall provide, within five (5) working days, any record requested by any duly appointed financial examiner . . ."

The General Motors holding company system is decentralized. Financial records are kept in various locations, and because of this it was difficult to obtain detailed documentation. Many requests took well over five working days.

We direct the Company to centralize its financial records or maintain an adequate audit trail that would expedite the response to financial information requests. This could significantly reduce the costs of future financial examinations.

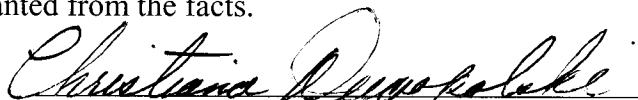
## ACKNOWLEDGMENT

The assistance and cooperation extended by various employees of National General Insurance Company during the course of this examination are hereby acknowledged and appreciated. In addition to the undersigned, James M. Simmerman, CFE; Karen J. Milster, CPA, CFE; and Andrew T. Balas, AES, CFE, CPA; examiners for the Missouri Department of Insurance participated in this examination.

## VERIFICATION

State of Missouri                     )  
  ) ss  
County of Cole                     )

I, Christiana Dugopolski, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiner finds reasonably warranted from the facts.



Christiana Dugopolski, CPA, CFE  
Examiner-in-Charge  
Missouri Department of Insurance  
Midwestern Zone, NAIC


Sworn to and subscribed before me this 15 day of April, 2005.

My commission expires: February 3, 2009

  
Notary Public

## SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting work papers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.



J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARe  
Audit Manager - St. Louis  
Missouri Department of Insurance  
Midwestern Zone, NAIC

# **GMAC Insurance**

**Verne E. Purvines**  
Vice President, Legal Counsel

April 27, 2005

The Honorable W. Dale Finke  
Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Attn: Kirk Schmidt, CFE, CPA  
Chief Financial Examiner

Re: National General Insurance Company  
Report of Financial Examination

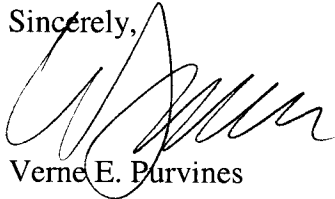
Dear Mr. Schmidt:

The captioned Report of Financial Examination, in the General comments and/or Recommendations section, recommends that National General Insurance Company (the Company) centralize its financial records to expedite the response to financial information requests.

The Company's records are maintained in certain strategic locations to efficiently and effectively support the Company's business from an operational perspective by being readily available to management of the operating departments as needed.

Please let us know if you have any questions or require anything further in connection with this examination.

Sincerely,



Verne E. Purvines

VEP/rg

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National General Assurance Company  
GMAC Insurance Company Online, Inc.  
GMAC Direct Insurance Company  
MIC General Insurance Corporation  
National Alliance Insurance Company  
GMAC Insurance Marketing, Inc.